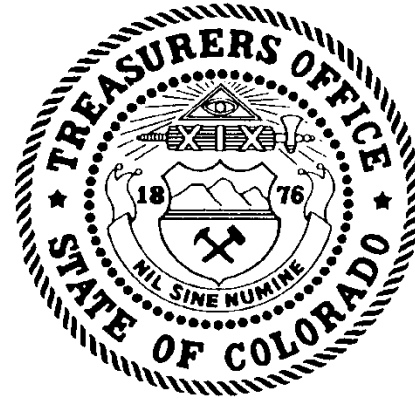


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2008



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## The Impact of the Financial Crisis

December 22, 2008

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# How and Why???

2006

\$ 47 trillion	total economic output of the world
\$ 51 trillion	total capitalization of world's stock markets
\$ 68 trillion	total value of domestic and international bonds
\$473 trillion	total amount of derivatives outstanding

Source: The Ascent of Money by Niall Ferguson (2008)

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# Colorado Tax Revenues Are Weakening

Year-to-Date FY09 (July – November 2008)  
actual revenues compared to prior year

- Sales Tax Down 4.0%
- Net Individual Income Up 3.1%
- Net Corporate Income Down 18.2%

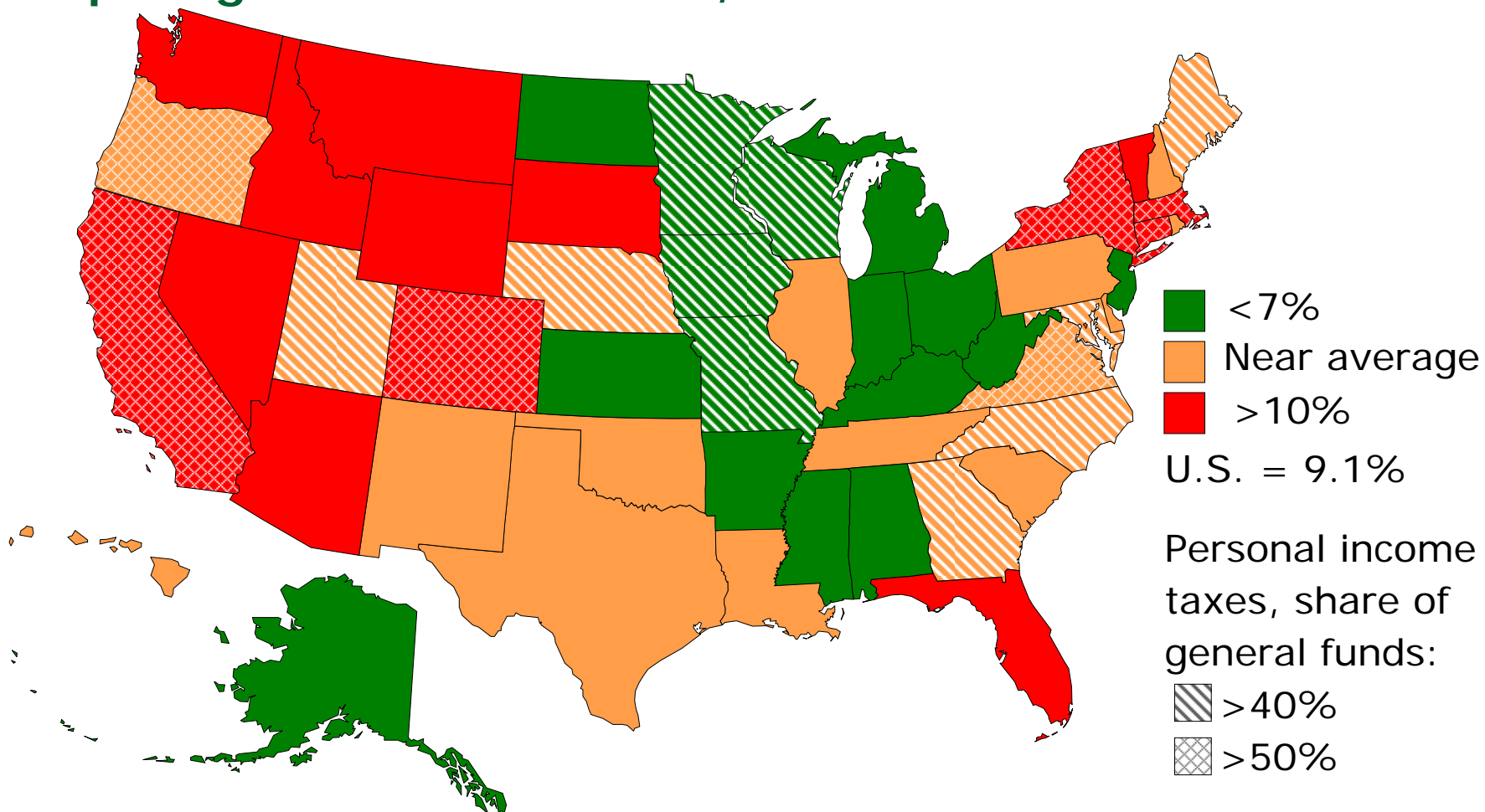
Gross General Fund Down -0.1%

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# Colorado Depends on Capital Gains

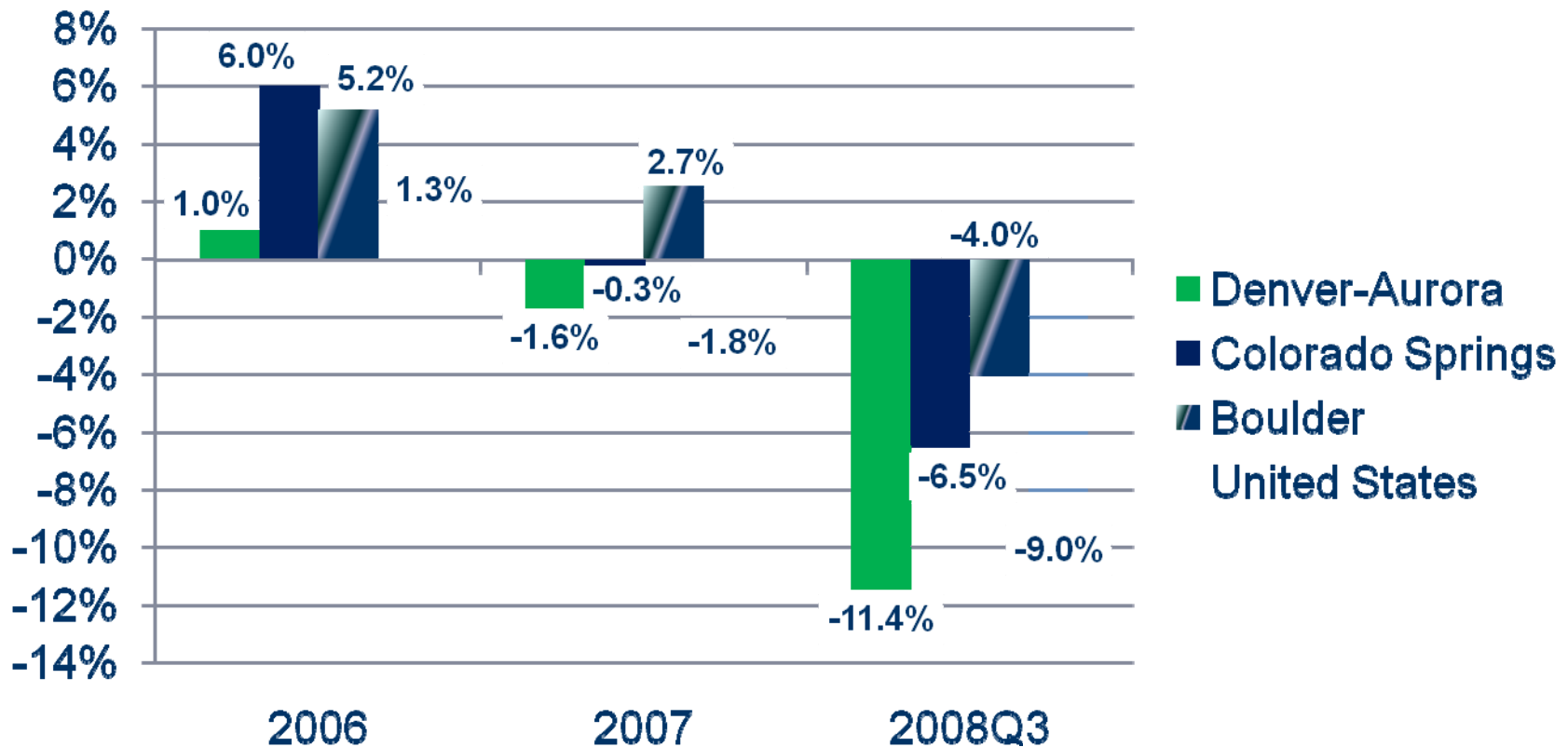
Source: Moody's Economy.com

## Capital gains as a % of AGI, 2006



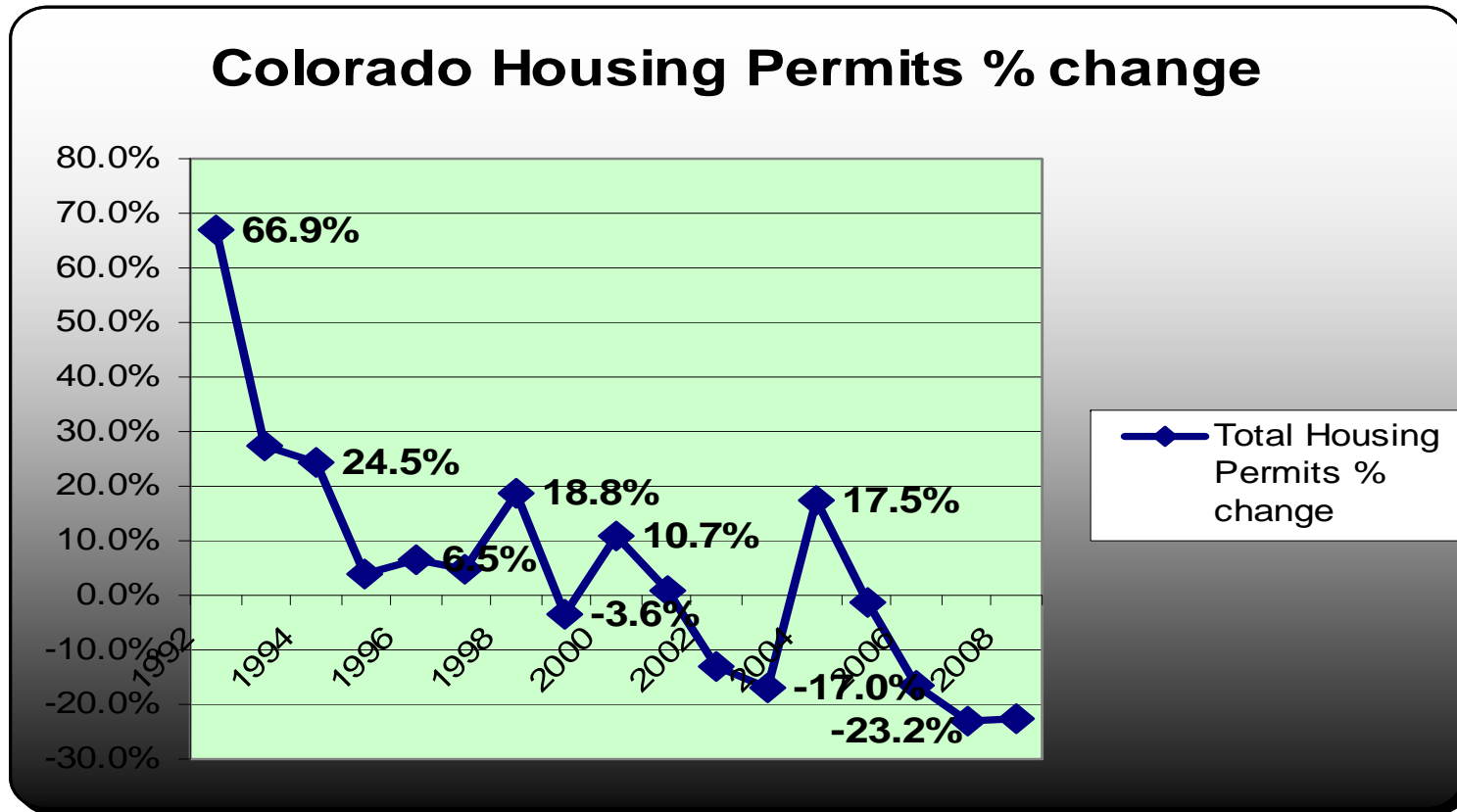
Sources: IRS, Census

# Colorado - Percent Change in Single Family Median Home Prices



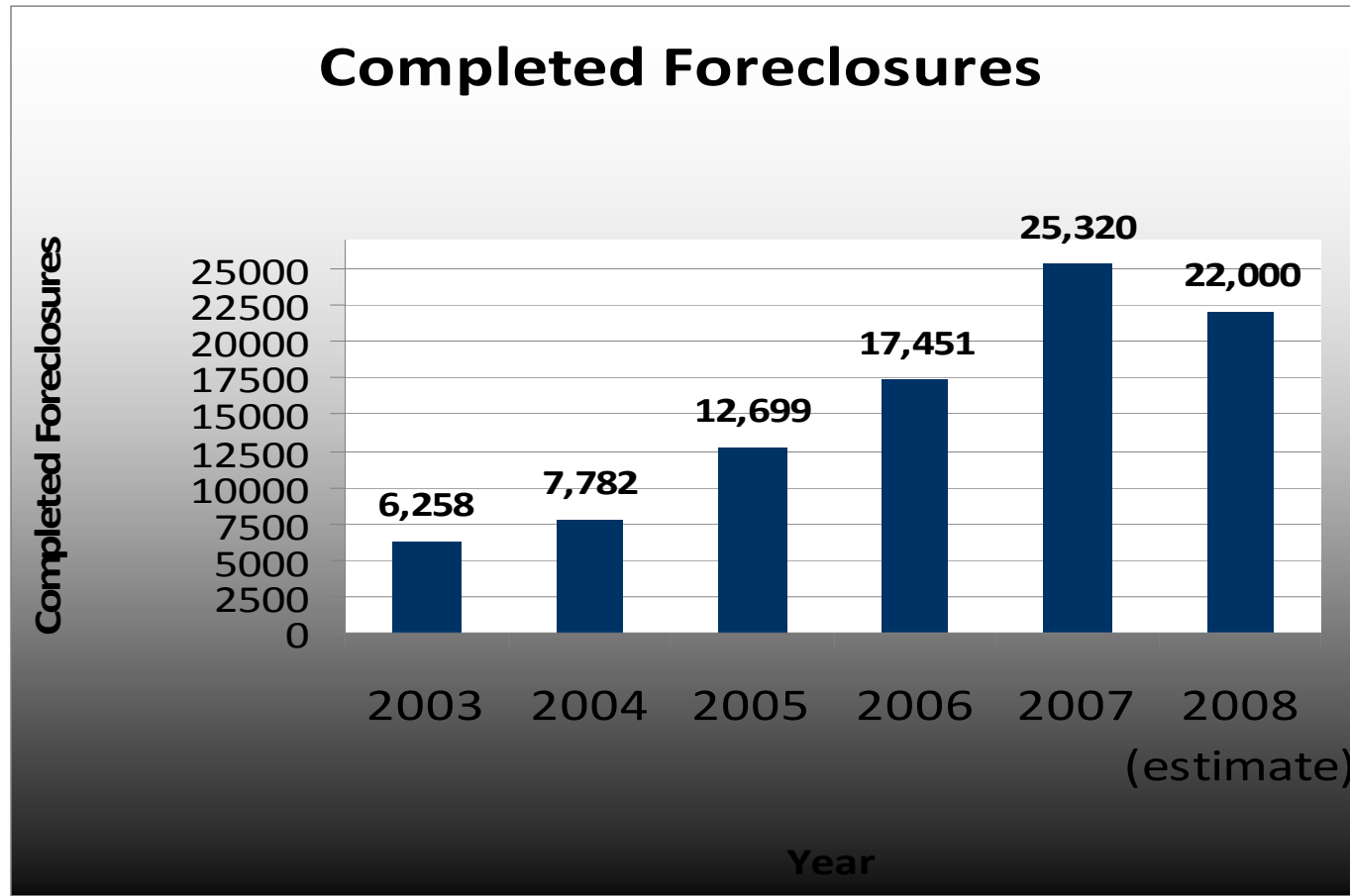
# Colorado New Housing Permits Continue to Decline

Source: Office of Legislative Council

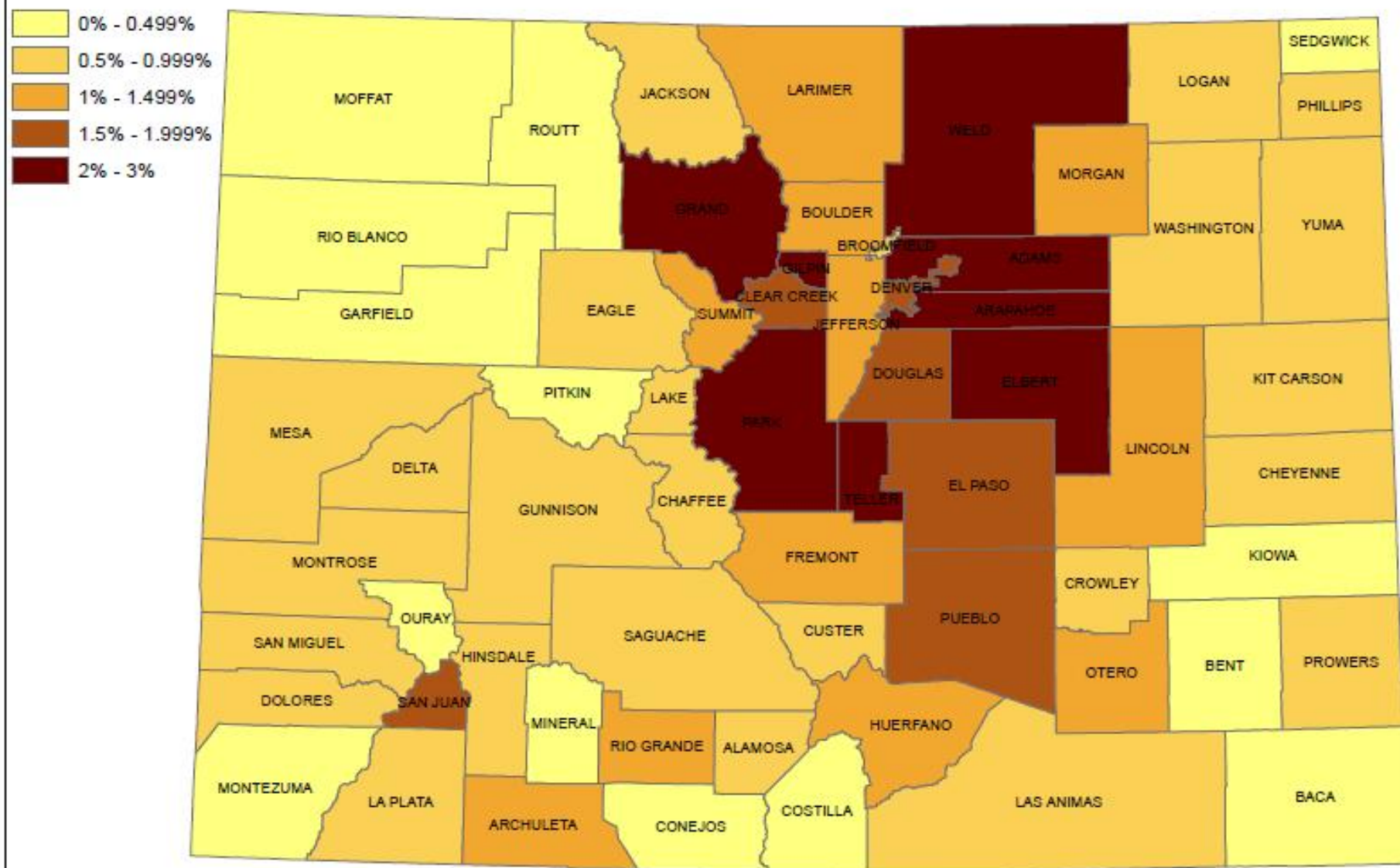


# Colorado Foreclosures Still at Historic Highs

Source: Division of Housing, Colorado Department of Local Affairs



## Percentage of Occupied Households Receiving Foreclosure Filing January - September 2008



Source: Division of Housing, Colorado Department of Local Affairs



# Colorado Mortgage Characteristics

- 18.6% of Colorado mortgages are subprime, ranking Colorado 17<sup>th</sup> highest among states. (source: DataPlace.com 2005 Estimate)
- 12.2% of Colorado ARMs will adjust over the next 12 months. That is the highest in the country, next highest is Georgia at 11.1%. (Source: New York Federal Reserve)
- In Colorado 69.8% of subprime mortgages are ARMs and 49.3% of Alt-A mortgages are ARMs. (Source: New York Federal Reserve)



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# Credit Market Volatility - Colorado Impacts



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# Colorado' Credit Remains Strong

- **\$230 million** issued for higher education capital construction (October 2008)
  - 12 projects including Auraria Science Building
  - AA- (S&P); Aa3 (Moody's)
  - All in borrowing cost of 5.38%
- GTRANS - **\$350 million** sold in July at 1.68%
- ETRANS – **\$215 million** Series A sold in July at 1.54%; **\$300 million** Series B sold in November at 1.0%
- Colorado (State) does not hold any variable rate debt



Centennial School District (Costilla County)  
K-12 music classroom; photo courtesy of  
**Great Education Colorado** (2006)

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# Colorado – Taxpayer Exposure to Credit Risk

- Colorado public entities have issued \$7.5 billion in variable rate transactions since 2005 (see list)
    - Some remarketing failures have lead to higher rates
  - Large variable rate borrowers: Colorado Housing and Finance Authority, CollegeInvest, City and County of Denver (DIA), and Denver Public Schools
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# Enhancing Credit for Borrowers

- Many Colorado public borrowers historically relied on the bond insurance market.
  - Treasury initiated legislation (2008) to enhance the credit of state colleges and universities through the use of a state “intercept” program (passed).
  - The intercept program is expected to save \$10 million in interest this year.
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# Colorado – Taxpayer Exposure to Credit Risk

- CollegenInvest: requested \$30 million loan (revolving) to access new federal guarantees under H.R. 5715 (“Ensuring Continued Access to Student Loans Act of 2008”) for Spring semester disbursements. JBC approved on Friday.
  - CHAFA: Relies on access to capital markets. Approx. \$2.8 billion variable rate debt with \$1 billion swaps with Lehman, all of which have now been terminated.
  - Other entities that need to access the capital markets for construction projects (CU, cities, counties, special districts).
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# Going Forward

- Current market conditions makes long term borrowing more expensive.
  - Issues to consider:
    - Higher borrowing costs
    - COPs require equivalent value collateral
    - Substantial real estate work takes longer than 3 months
    - Restrictions on the use of certain funds (HUTF, Permanent Fund)
    - Investors look beyond the identified source of repayment to all available resources
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# Investment Volatility - Colorado Impacts





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# Colorado – Taxpayer Exposure to Investment Risk

- Colorado Treasury did not hold collateralized debt obligations (CDOs) tied to sub-prime debt or any of the five major investment banks including Bear Stearns, Lehman Brothers or Merrill Lynch.
  - Treasury discontinued the state's securities lending program in December 2007 to protect taxpayer money, well in advance of the current turmoil.
  - Treasury Pool yield through Sept 30: 3.5%
  - In 2007 Treasury started posting all state investments on website.
  - Colorado is purchasing assets through the FDIC Temporary Liquidity Guarantee Program
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# Colorado – Taxpayer Exposure to Investment Risk

- Other large investors:
    - ❑ PERA
    - ❑ Local pensions (DPSRS, FPPA, others)
    - ❑ Pinnacol Assurance
    - ❑ CU and the CU Foundation
    - ❑ Local Government Investment Pools (ColoTrust and C-SAFE)
    - ❑ Local governments
    - ❑ Foundations
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# Going Forward

- Evaluate needs to extend state credit (higher ed) and liquidity (CollegelInvest, CHFA)
  - Evaluate current statutory framework in light of new economic conditions
  - Work with Congress on the federal stimulus package to address concerns in municipal finance
    - Allow the Federal Reserve to directly purchase municipal variable rate bonds sold to banks
    - Allow the Federal Reserve to make loans made to banks so they can buy municipal variable rate bonds
    - Expand banks ability to buy fixed rate bank qualified municipal bonds
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